

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **China - Peoples Republic of**

## **Poultry and Products Annual**

### **2016**

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**Report Highlights:**

China is the second largest broiler meat consumer in the world. Since January 2015, the United States has been restricted from the market due to highly pathogenic avian influenza (HPAI) outbreaks. Brazil is the top beneficiary from the absence of U.S. suppliers. Post revises the 2016 broiler meat import forecast downward to 350,000 tons, an increase of 82,000 tons compared to the USDA's 2015 official figure. Post forecasts China's 2017 broiler meat consumption to be 11.6 million metric tons (MMT), a 13 percent decrease from USDA's official 2015 consumption number.

## Production

Table 1: Broiler Meat Production, Supply, and Demand (PS&D) Table

Poultry, Meat, Broiler	2015			2016			2017	
	Jan 2015			Jan 2016			Jan 2017	
China	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post
<b>Production</b>	13400	13400	13400	12700	12700	12700	0	11500
<b>Total Imports</b>	268	270	268	360	400	350	0	480
<b>Total Supply</b>	13668	13670	13668	13060	13100	13050	0	11980
<b>Total Exports</b>	401	400	401	375	380	405	0	380
<b>Total Dom. Consumption</b>	13267	13270	13267	12685	12720	12645	0	11600

\*Note: Forecast excludes poultry feet/paws

\*\*Note: Units are in 1,000 Metric Tons

Chinese broiler meat production is forecast to drop by approximately 0.7 million metric tons (MMT), or 5 percent, in calendar year (CY) 2016 due to China's continued import restrictions on grandparent stock from major trading partners. Post further forecasts China's 2017 production to drop by 1.9 MMT, or approximately 14 percent, from CY 2015 figures if restrictions continue.

According to China Customs data, China imported nearly \$40 million of chicks used for breeding stock in 2014, of which over 90 percent originated from the United States. In 2015, after the highly pathogenic avian influenza (HPAI)-related restrictions were put in place; China imported only \$22 million worth of chicks and is forecast to again import only half of the 2014 figure this year.

Prior to 2015, the United States and France were China's top suppliers of white-feathered broiler grandparent stock. Shipments are currently restricted from both countries due to avian influenza concerns. As a result, supplies have increased from Spain and New

### **United States Poultry Restricted**

China has restricted all U.S.-origin poultry and poultry products since January 2015 in direct response to December 2014 HPAI outbreaks in the United States. As of August 1, 2016, China has not removed restrictions on U.S. poultry and poultry products even though the United States has been recognized by the World Organization for Animal Health (OIE) as free of HPAI since April 22, 2016.

The United States supplied over 90 percent of China's imported chicks used for breeding stock in 2014.

Zealand but these shipments have only partially offset large import declines. With import restrictions on the top suppliers for most of 2015, and most likely all of 2016, industry sources have expressed concern that existing grandparent stocks will not be able to maintain current production levels in 2016 and will greatly affect 2017 production levels.

Table 2: Declining imports of white broiler grandparent stock

<b>China White Broiler Breeder Imports</b>	
2014	1.7 million units
2015	694,000 units
2016	400,000 units (estimate)

Source: Industry Source

The reduction in grandparent stock has led China’s poultry industry to further use a practice known as forced-molting. The expected outcome of forced-molting is to increase egg production, and therefore profitability of flocks, in the broilers’ second laying phases. China’s poultry producers use the practice to extend production of the limited white-feathered broilers currently in the production system. The practice of forced-molting is not prevalent in other countries because of animal rights concerns as well as concerns over increased mortality rates in laying phases beyond the second phase. While the practice of forced-molting is forecast to somewhat offset the reduction in China’s production output of poultry meat in 2016, industry sources believe the offset will be minimal and only a short-term solution.

The Chinese poultry industry has grown over recent years, adding many new slaughtering facilities in the provinces of Shandong and Liaoning. Though, due to the reduction in available birds, these facilities are not operating at full capacity. Fujian Sunner Group continues to be the number one broiler meat producer in China with an annual harvest of roughly 400 million birds, or 648–840 TTM per year. Fujian Sunner Group’s production represents about 5-7 percent of China’s total production in 2016.

In addition to improved food safety surveillance systems, the Chinese poultry industry has also enhanced farm management and feed nutrition. China’s broiler production industry is now considered a mature market and China’s metrics for measuring efficiency are similar to other mature markets (e.g., United States). The average weight of fully grown broilers at slaughter is currently at 2.5 kilograms (kg) per bird. Average feed conversion ratio (FCR) is approximately 1.7:1 to 1.8:1kg per bird. Both of these figures are in line with global industry averages.

*Production Costs*

In line with lower global price trends, domestic prices for corn in the first 7 months of 2016 (January-July) slid by approximately 16 percent to 2044 RMB/MT as compared to the same period of 2015. The drop in prices is a result of abundant supply after China’s record corn production in 2015 and the elimination of government support prices in 2016. Meanwhile, prices for fishmeal have stabilized after a peak in 2015. On average, China continues to import about 1 MMT per year. While fishmeal has been reported to have been used in feed at some broiler production facilities, the majority of fishmeal continues to go towards aquaculture feed and some use in the pork industry. In comparison, China’s domestic prices for soybean meal have increased in comparison to the same period last year. In the last two months of available data (i.e., June and July 2016) prices of soybean meal have increased by

approximately 15 percent. Despite recent soybean price increases, trade sources report that Chinese feed mills have maintained their feed rations in favor of soybean meal.

Industry sources report prices of parent broiler stock increasing roughly 3 times that of the prices of parent stock during the same period in 2015.

Table 3: Wholesale Prices for Feed Ingredients (RMB/kg)

Month	Corn			Soybean Meal		
	2015	2016	%Δ	2015	2016	%Δ
January	2.43	2.10	-13.58%	3.73	3.08	-17.43%
February	2.41	2.09	-13.28%	3.60	3.10	-13.89%
March	2.42	2.04	-15.70%	3.59	3.03	-15.60%
April	2.44	1.98	-18.85%	3.54	2.97	-16.10%
May	2.46	1.97	-19.92%	3.47	3.08	-11.24%
June	2.47	2.03	-17.81%	3.33	3.35	0.60%
July	2.47	2.10	-14.98%	3.31	3.54	6.95%
August	2.46			3.30		
September	2.37			3.25		
October	2.22			3.23		
November	2.13			3.18		
December	2.14			3.10		
Average	2.37	2.04	-16.30%	3.39	3.16	-9.53%

Source: China Ministry of Agriculture

Note: US\$1.00 = 6.68 RMB as of July 25, 2016

### Consumption

As supply for broiler meat tightens, prices will increase, and consumption will decrease. Post forecasts consumption to fall in 2016 to approximately 12.64 MMT and to 11.60 MMT in 2017. USDA official consumption numbers for 2015 were 13.27 MMT. Post's forecasts for 2016 and 2017 represent a decrease of 5 and 13 percent from the 2015 figure, respectively.

While China's domestic pork prices are expected to continue rising, broiler prices are also expected to rise. Consumption of white-feathered broiler meat (i.e., broilers imported from the Western countries) will vary across the country. White broilers are commonly used in fast food restaurants (e.g., Kentucky Fried Chicken) and in processed products because of the white-feathered broilers cost competitiveness in comparison to yellow-feathered broilers. White-feathered broilers are approximately half the price of the yellow-feathered broilers, which are sourced locally.

## Comparison between White Feathered and Yellow Feathered Chickens

	White Feathered Broiler	Yellow Feathered Broiler
Species	90% grandparent stocks imported from the United States	Local species
Market share in 2016*	48%	31%
Feed to meat ratio	1.7:1 to 1.8:1 kg	2.5:1 kg
Sales channel	Fast food restaurants, canteens and food processing plants	Wet markets and supermarkets; targeting family consumption

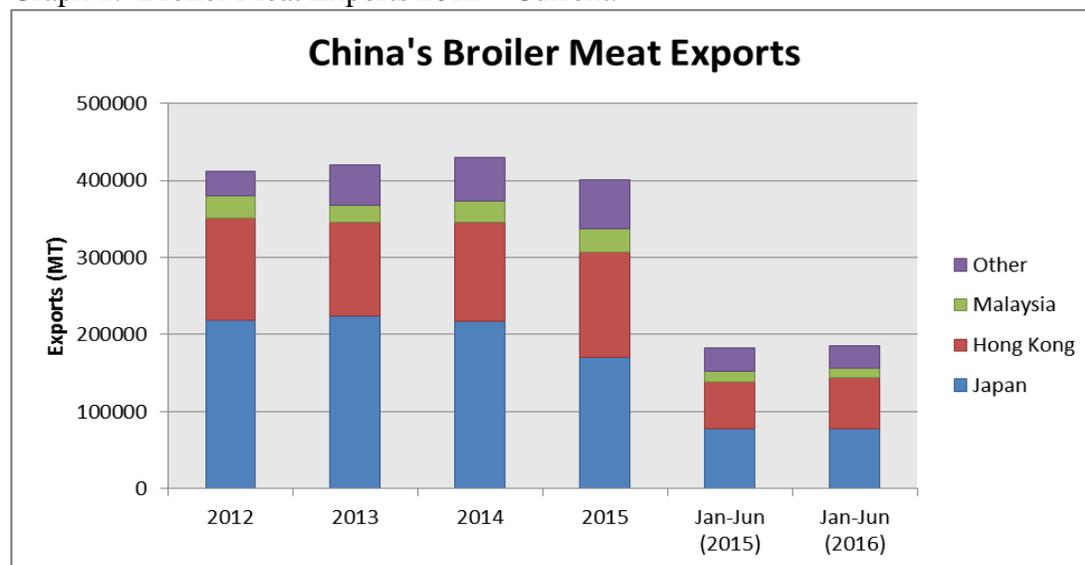
Chicken wings and legs are popular consumer products throughout China. Breast meat is not as popular and is about 30 percent cheaper than skinless legs and about 70 percent cheaper per kilogram than wings. While domestically sourced yellow-feathered broilers will not be able to meet demand created by decreasing white-feathered broiler supply, yellow-feathered broilers are expected to increase market share in 2017. Post forecasts market share for white-feathered broilers to drop to 48 percent in 2016. The drop represents a decrease of 7 percent from February forecasts.

Average retail prices for broiler meat increased by 1.1% percent to 19.2 RMB/kg in 2016 (January-May) from 18.9 RMB/kg during the same period in 2015.

## Trade

### Export

Graph 1: Broiler Meat Exports 2012 – Current.



China's broiler meat exports decreased by nearly 7 percent in CY 2015 to 401 thousand metric tons (TMT). For comparison, the United States exported roughly 3.1 MMT in 2015. During the first 6 months of 2016, China's exports have increased by 2 percent in comparison with the same period in 2015. This slight increase in the first half of 2016 is due to China's competitiveness in the fresh/chilled market in Hong Kong and the preference in Hong Kong for yellow-feathered broiler meat. Post forecasts overall exports to decline 5.2 percent in CY 2017 to 380 TMT as a result of the decreased supply of grandparent stock and the forecasted increase in prices.

China continues to be the fifth largest broiler meat exporter to the world after Brazil, the United States, the EU, and Thailand. Thailand is the fourth largest exporter of broiler meat with approximately 622 TMT of exports in 2015, over 200 TMT more than China. Japan, Hong Kong, and Malaysia are the top markets for China, accounting for more than 80 percent of China’s exports, or about 340 TMT in 2015.

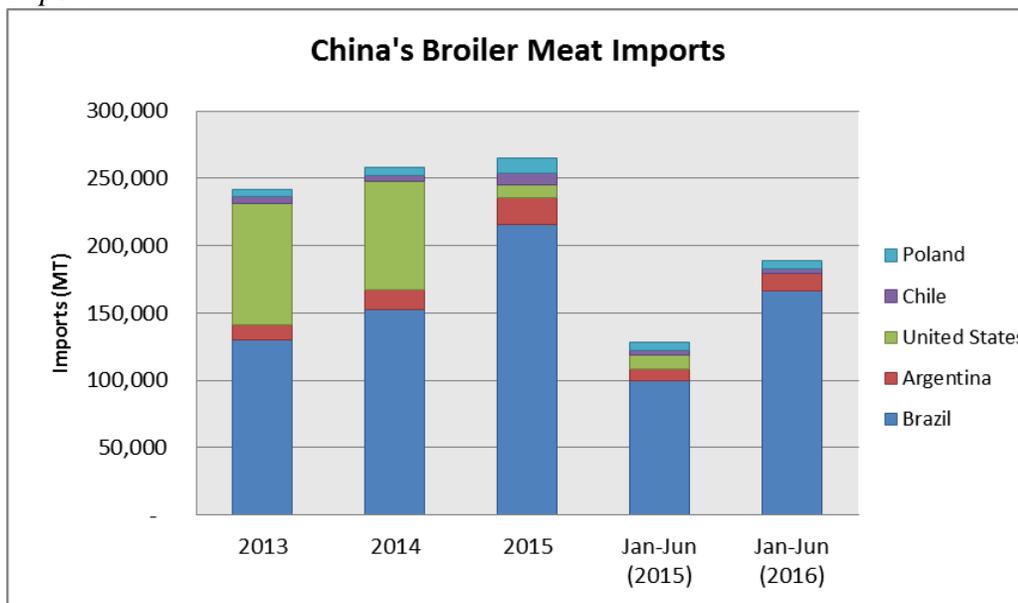
*Export Trend*

The Chinese consumer has a strong preference for chicken wings and legs. Breast meat, on the other hand, is not preferred. As China’s capacity to manage the production and processing of broiler meat grows, China could become a large exporter of white breast meat. Currently, the major export market for China’s prepared or preserved broiler meat products is Japan. Thailand is also a major producer of the prepared or preserved broiler meat products and is China’s leading competitor in Japan.

Fresh/chilled whole birds are largely exported to Hong Kong. The United States and Brazil are major competitors in the Hong Kong fresh/chilled market.

Japan is China’s largest export market, accounting for nearly half of all exports for the last 5 years. Recently, however, China’s exports to Japan have been declining as a result of the 2014 food safety scandal involving a major global supplier. Since then, industry has reported that Japan has increased imports from Thailand. Post forecasts next year’s exports to Japan to continue to decrease due to the reduction in domestic production, increased prices, and lingering food safety concerns.

*Import*



As a result of the United States’ avian influenza restrictions, Brazil, Argentina, and Chile have all increased exports of broiler meat to China. China’s imports increased by nearly 3 percent in CY 2015 to 268 TMT (for comparison, the United States imported roughly 50 TMT in 2015). During the first 6 months of 2016, China’s imports have increased by over a third in comparison with the same period in 2015. This sharp increase in the first half of 2016 is due to the inability of China to meet demand

domestically. Post forecasts imports to increase over 200 TMT from 2015 figures in CY 2017 to 480 TMT as a result of the decline in Chinese production.

Brazil has been able to increase broiler meat exports to China by more than 60 percent over the last two years. This is a result of many additional Brazilian factories being approved to export to China and the depreciation of the Real. Brazilian exports of broiler meat to China now account for approximately three quarters of total Chinese imports.

Post adjusted China's 2016 imports down to 350 TMT, which is about a 31 percent increase from 2015 figures. The adjustment is mainly due to lackluster consumption and reduced exports.

### *Import Policy*

China imposes avian influenza (AI) related import restrictions that are inconsistent with the World Organization for Animal Health (OIE) guidelines. China requires countries to be free of both highly pathogenic avian influenza (HPAI) and low pathogenic avian influenza (LPAI) for 90 days before submitting an application to get the AI restriction lifted. The OIE, on the other hand, recommends countries to be free of only HPAI. Once a country is free of AI, China's application process to lift the restriction is time intensive and non-transparent. For example, the United States has been requesting removal of the restriction since April 22, 2016 (i.e., the day the United States became recognized by the OIE as free of HPAI) but China has yet to recognize the United States' status (Accurate as of August 1, 2016). Furthermore, China continues to implement country-wide restrictions rather than the OIE recommended regionalization (or zoning) method. Regionalization is a way to restrict trade from certain regions (or zones) rather than from an entire country. For geographically large countries like the United States, Canada, and France (and China), regionalization is an important policy to ensuring fair and equitable trade.

China also has anti-dumping duties on U.S. poultry and poultry products. In 2013, the WTO found that China's imposition of higher duties on chicken broiler products – which was followed by an 80 percent drop in American exports of those products to China – is unjustified under international trade rules. The dispute settlement process for this case is ongoing.

**Price Table (based on RMB/KG, \$1=RMB6.5)**

<b>China Retail Broiler Meat Prices on Average, 2011-2016</b>							
<b>(RMB /KG)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Percent Change 2015/2016</b>
<b>January</b>	16.32	17.65	17.92	17.55	19.09	19.05	-0.2%
<b>February</b>	16.71	17.46	18.41	17.15	19.28	19.50	1.1%
<b>March</b>	16.33	17.04	17.90	16.83	19.08	19.13	0.3%
<b>April</b>	16.32	16.99	16.39	17.15	18.73	19.05	1.7%
<b>May</b>	16.45	16.73	15.32	17.93	18.56	19.11	3.0%
<b>June</b>	16.95	16.74	16.00	18.22	18.43		
<b>July</b>	17.49	16.71	16.40	18.32	18.65		
<b>August</b>	17.94	16.90	16.89	18.78	19.10		
<b>September</b>	18.05	17.28	17.33	19.16	19.25		
<b>October</b>	18.00	17.43	17.45	19.22	18.95		
<b>November</b>	17.57	17.50	17.40	19.14	18.82		
<b>December</b>	17.39	17.70	17.51	19.06	18.96		
<i>Source: The Ministry of Agriculture collected from over 400 markets of farm produce.</i>							